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C O N F I D E N T I A L SECTION 01 OF 02 VILNIUS 000962

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SUBJECT: NEW GOVERNMENT TAKES SHAPE, SEEKS TO DEAL WITH ECONOMIC CHALLENGES

REF: A. VILNIUS 912

¶B. VILNIUS 855

Classified By: Ambassador John Cloud for reasons 1.4 (b) and (d)

¶1. (U) Summary: Lithuania's new government is taking shape as the four parties in the ruling coalition divide up ministerial posts and draft the government program. The parties agree that their most pressing task is to deal with economic challenges. While most of these result from Lithuanian policies, the coalition leaders recognize the global financial crisis puts Lithuania at increased risk. The new government will be strongly pro-NATO and supportive of continuing close ties to the United States. It will also continue to be very suspicious of Russia. End Summary.

An experienced PM and a celebrity Speaker

¶2. (C) The new prime minister will be Andrius Kubilius, head of the Homeland Union-Lithuanian Christian Democrat Party (known as the Conservatives) that won the most seats in October elections for the parliament (Seimas). Kubilius served as prime minister in 1999-2000, in the aftermath of the Russian financial meltdown that hit Lithuania's economy badly. As prime minister he reoriented Lithuania's economy away from Russia to the West, which helped lead to years of rapid economic growth. He has worked well with the Embassy in the past and is a strong supporter of U.S.-Lithuanian ties.

¶3. (C) Arunas Valinskas, the TV host heading the celebrity-studded National Revival Party, will be the new speaker of the Seimas. He created the National Revival Party earlier this year with a slate of Lithuanian entertainers, but said before the elections that he would chose experts to fill any government offices his party obtains. He told the Ambassador before the elections that his primary goal was to ensure that the party of impeached former President Paksas did not form the new government. In this he succeeded as his new party siphoned off support from other populist parties, Paksas's and businessman Uspackich's Labor Party. Valinskas is inexperienced, but we expect him to be centrist.

Home grown economic problems

¶4. (C) Kubilius blames the economic challenges Lithuania presently faces on the irresponsible policies of the outgoing government led by the Social Democrats (SDs). In the recent past, when times were good with GDP growing at an impressive pace, the SDs were able to spend a lot and save nothing. Kubilius made clear in statements he made to the Press that the GOL should have controlled the budget deficit. Instead, the outgoing PM and the Finance Minister "are either afraid or incapable of speaking openly about the situation." Kubilius has called for an overhaul of the tax code and abolition of some VAT exemptions to increase revenues by \$600 million, combined with budget cuts of \$700 million.

Likely key ministers

15. (C) Listed below are the coalition's candidates to lead key ministries.

- Economy: Dainius Kreivys, a businessman, is new to the Seimas. He is an economic analyst and has been chief executive of furniture and public-relations companies.
- Energy: The new government is separating the energy portfolio from the Economy Ministry. Arvydas Sekmokas, the front-runner for Energy Minister, was vice-minister of Economy in 1991-92 and is CEO of an IT company.
- Defense: Conservative party vice-chair Rasa Jukneviciene is slated to become Lithuania's first female Defense Minister. She has served on the Seimas's National Security and Defense Committee and Commission for NATO Affairs, and chairs the Seimas delegation to the NATO Parliamentary Assembly.
- Finance: Former Minister of Finance Algirdas Semeta is to take that post again, leaving his current job as director of Lithuania's statistics department.
- Foreign Affairs: Former ambassador to the United States and current ambassador to Great Britain, Vygaudas Usackas, is the official candidate, according to Kubilius.
- Health: The head of the Liberal and Center Union, Arturas Zuokas, who is a former mayor of Vilnius, is expected to be

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put forth by his party to become Minister of Health. Zuokas is known as an excellent manager. However, he was recently convicted of corruption. (Zuokas was not sentenced for his corruption conviction and remains eligible for a ministerial position.) But Kubilius, asked by the Press about the conviction, said he "would really like the new government to start work without any personal blemishes."

- Transportation: Eligijus Masiulis, head of the Liberal Movement party, will head the Transportation Ministry.

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